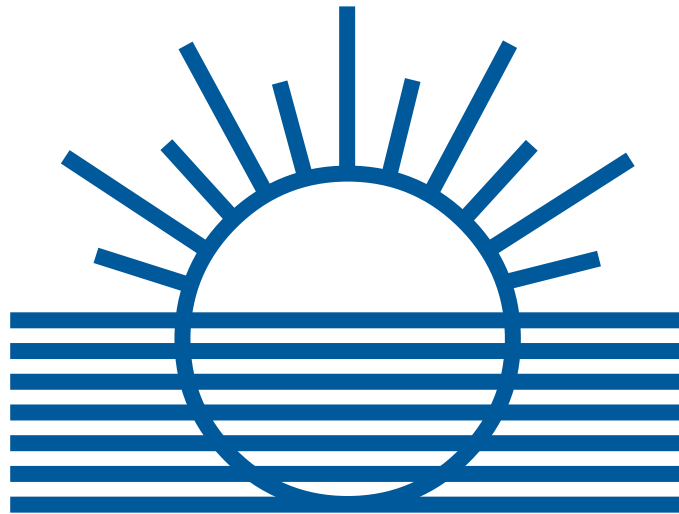


THE SENIOR CARE ACQUISITION REPORT

FOURTEENTH EDITION
2009

ABSTRACT



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Preface

This is the fourteenth edition of The Senior Care Acquisition Report and represents the nineteenth consecutive year that Irving Levin Associates has published the results of its annual survey of acquisition trends in the skilled nursing facility and seniors housing market, which includes assisted and independent living facilities. Our analysis of trends for such key statistics as average price per bed and per unit, capitalization rates, income multiples and other valuation tools goes back more than 20 years to 1986. We also include transactions in the back of this Report in the home health and hospice sector, an area of the business that shares some common issues with the senior care sector and serves a very similar market.

The first section of this Report reviews the skilled nursing facility acquisition market with nearly 30 graphs and charts detailing the acquisition market over the past several years, but with a specific focus on 2008. The second section, in its fourth year in the Report, details some pricing statistics on REIT sale/leaseback transactions in the skilled nursing and assisted living acquisition markets compared with the broader markets. The third section details trends in the assisted and independent living facility acquisition markets. These two sectors are grouped together because many independent living communities contain a certain number of assisted living units, and there are always some assisted living facilities that provide so little personal care that they appear to be more like an independent living community. Also, there are a growing number of assisted living facilities that have an independent living component. For certain key statistics, however, we have separated the two types of facilities.

The final two sections contain a summary of all “publicly announced” senior care and home health and hospice transactions during 2008. In the senior care market, there were nearly 100 such transactions, representing a nearly 22% decrease from 2007. All transactions used in the statistical part of this Report include the purchase of the real estate and business of the property. There are always a certain number of the publicly announced senior care transactions that are not used in the statistical compilations in the first and third sections of the Report for a variety of reasons. These would include the lack of disclosed prices, the sale included a CCRC, the presence of leases or management contracts, the inclusion of a therapy or pharmacy business in the price or transactions that were not considered to be arm’s length. As a result, more than 40% of the transactions used in compiling the 2008 statistics were from “private” or confidential deals gathered from industry contacts, and they are not listed in the final section. In the home health/hospice market, there were 47 announced transactions in 2008, about the same as in 2007.

Excluding the separate REIT transactions, in the aggregate, this Report includes statistics on approximately 815 senior care transactions with more than 1,435 facilities over the five-year period from 2004 to 2008. In 2008, the statistics were based on 64 separate skilled nursing facility transactions with nearly 80 facilities. For the assisted and independent living market, the statistics were based on 75 separate transactions that included 125 communities. These 139 transactions totaled more than \$1.5 billion in value, or less than one-half the amount in 2007.

We would like to thank Avery Enterprises, CB Richard Ellis, CLW Health Care Services Group, Health Care Advisory Group, Healthcare Transactions Group, Heavenrich & Co., HTG Consulting, Integra Realty Resources, James Brown Associates, Marcus & Millichap, Province Valuation Group, Senior Living Investment Brokerage, Senior Living Valuation Services, Tellatin, Short, Hansen & Clark and Valuation & Information Group for their help in making this Report the most comprehensive study available on the seniors housing and care acquisition market.

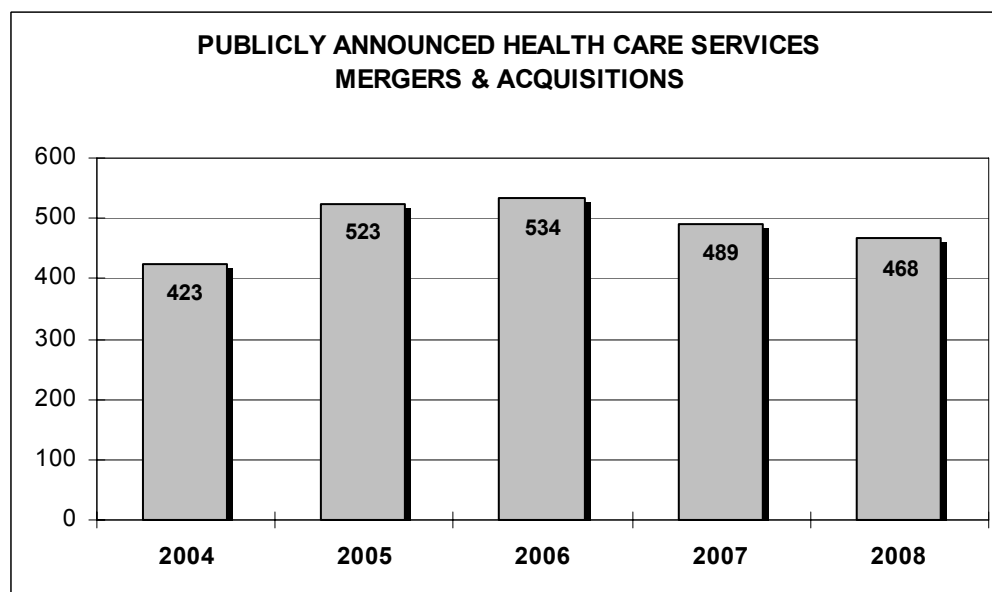
Stephen M. Monroe
Editor

INTRODUCTION

Overview of the Acquisition Market

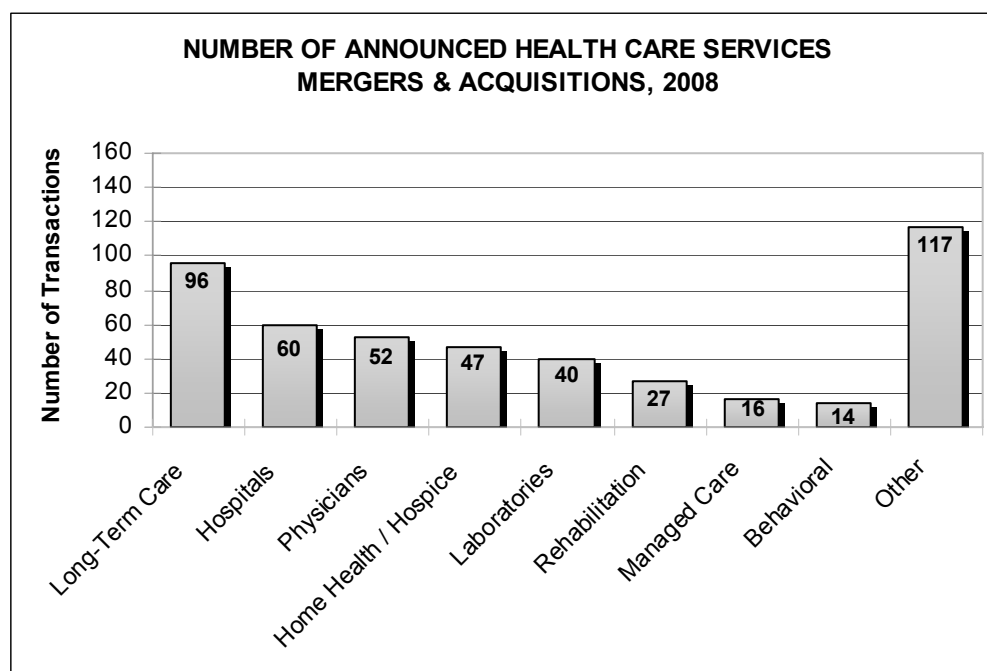
As everyone knows, capital is king, especially when it comes to the merger and acquisition market. As the capital markets began their initial downward spiral in the middle of 2007, no one was really sure how bad it would get and if there would be any longer-term impact. There is little doubt today. With stock market values dropping by more than 50%, the major banks around the world in need of government-sponsored subsidies to stay in business and everyone seeming to put off major economic decisions, the world of mergers and acquisitions was destined to dry up as well. While many investment bankers have lost their jobs (perhaps temporarily), and private equity firms have not been able to tap the debt markets for their billion-dollar acquisitions, life has not changed too dramatically in the health care merger and acquisition market. Including what we refer to as the technology segment of health care, which includes pharmaceuticals, biotechnology, medical devices and e-health, there were nearly 1,000 publicly announced mergers and acquisitions in 2008 with a stated value of about \$225 billion, the third highest annual dollar value on record. More than 90% of this dollar volume can be attributed to the technology segment, which in turn was dominated by various high-profile pharmaceutical and biotechnology deals. But just under 50% of the transactions, or more than 460 separate deals, were in the health care services area. Even as the overall markets were collapsing during the fourth quarter of 2008, there were still 225 publicly announced health care mergers and acquisitions, of which 48% were in health care services.

As can be seen below, even though the number of health care services transactions has been declining since the peak in 2006, the level of activity remains relatively high, especially given the deteriorating economy and capital markets during 2008. Perhaps the most significant change has been the dollar amount committed by financial buyers compared with strategic buyers during the past year. While the percentage of financial transactions usually averages between 4% and 6% of the total, the dollar volume committed by financial buyers dropped to less than 1% of the total in each of the last two quarters of 2008, with just \$141 million committed in the fourth quarter. These buyers have been pushed to the sidelines until the debt markets improve enough to provide them with the leverage required to buy again.



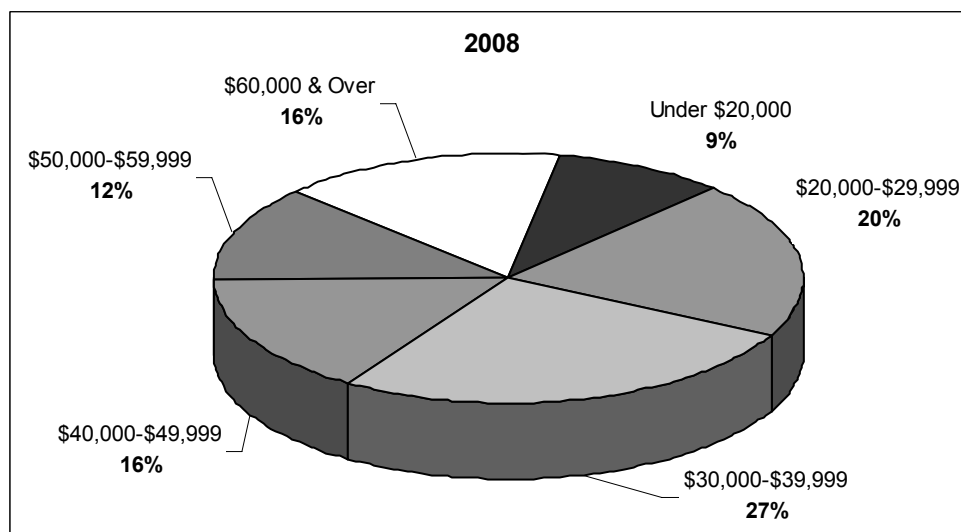
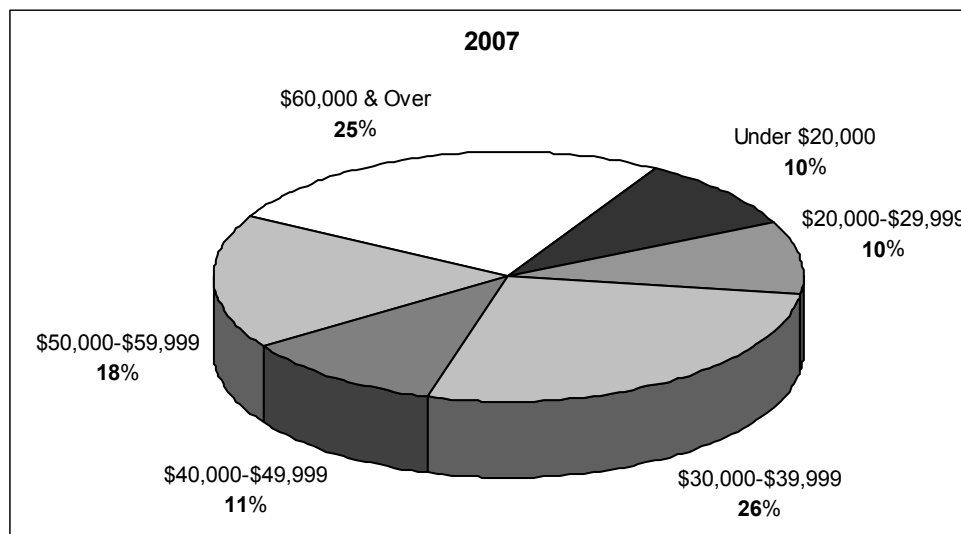
Some parts of the health care services acquisition market were impacted in 2008 by concerns over the presidential election and a possible change in direction for the U.S. health care system, while others were influenced by the downturn in the overall real estate markets and the lack of liquidity in the debt markets. Managed care in particular saw a sharp reduction in the number of transactions, from 28 in 2007 to just 16 in 2008, while the rehabilitation services market, which had been dormant for several years, almost doubled in size from 15 deals in 2007 to 27 in 2008. The number of publicly announced long-term care (senior care) transactions has been declining in the past few years, from 146 in 2006 to 127 in 2007 and just 96 in 2008. While that appears to be dramatic, the real story is in what happened to the dollar value of publicly announced senior care transactions. The peak was in 2006 with approximately \$22.6 billion of announced transactions. This dropped by 26% in 2007 with \$16.6 billion of transactions, and then plunged by nearly 90% to just \$1.8 billion in 2008. The senior care market took in about 20% of the transaction volume and but just 10% of the dollar volume in the health care services segment.

The reality is that both 2006 and 2007 were unusual years when private equity firms played a dominant role in the acquisition market for senior care properties, completing several transactions in each of those years greater than \$1.0 billion. To put it into perspective, during the last bull market in senior care in the late 1990s, the peak years of 1997 and 1998 had \$8.8 billion of announced transactions each. But during the following four years, each year had less than \$2.0 billion of announced mergers and or acquisitions. Consequently, what happened in 2008 is not too different from what happened after the last peak. What we don't know is whether it will take three to four years to pull out of the trough again, or whether we have even hit bottom yet. In 2008, there was not one transaction above \$300.0 million, and by the second half of the year, a "large" deal was anything over \$50.0 million. The transaction volume was somewhat steady, but at a slower pace, and many of the sales involved individual properties often financed by local banks. No one is expecting any significant pick-up in transaction volume in 2009, and large acquisitions will be far and few between, and most likely will involve distressed situations, such as the recent sale of a portfolio of properties managed by Sunwest Management.



Percentage of Nursing Facilities Sold By Price Range (2007 – 2008)

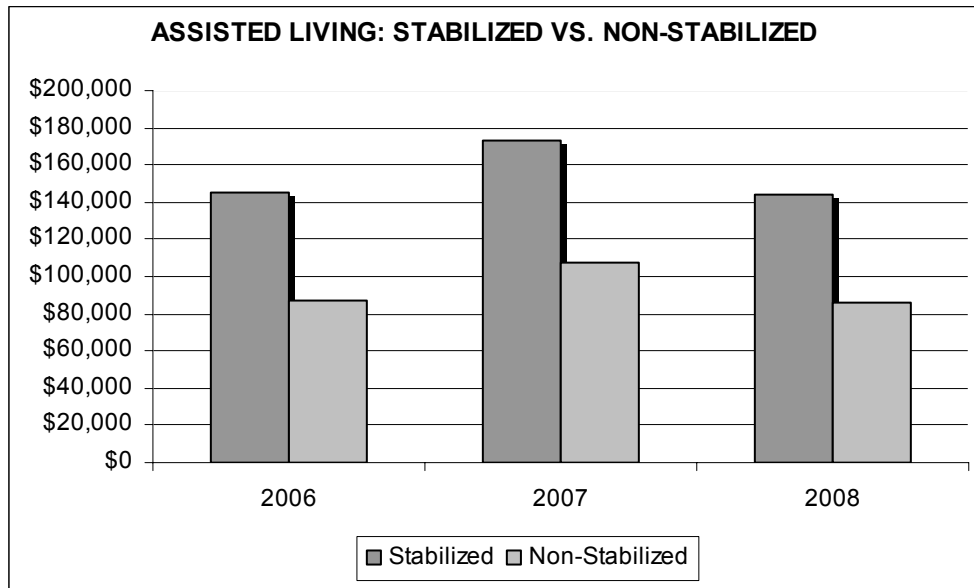
Even though the average price per bed in 2008 dropped well below the average in both 2006 and 2007, at the low end of the spectrum, under \$30,000 per bed, the percentage of sales in 2008 was almost identical to 2006 but well above the 20% in 2007. At the high end, sales at \$50,000 per bed and higher, the percentage of sales in 2008 declined significantly to just 28% compared with 43% in 2007, which was a record year. This helps explain the approximately 18% drop in the overall average price per bed paid last year. Despite the plunge in the average price per bed paid, in both 2007 and 2008 the most common price range was \$30,000 to \$39,999 per bed, representing 26% to 27% of sales in both years.



Stabilized vs. Non-Stabilized: Assisted Living (2006 – 2008)

As with the skilled nursing sector, we have assumed “stabilized” to be those properties at 85% occupancy or higher, even though in the assisted and independent living market most providers assume stabilized to be at least 90%. Whether the average price per unit is going up or down, there is always a number of assisted living facilities that are not stabilized that can have a drag on the market. They could be turn-around properties, facilities that just never quite filled up, facilities with poor management that should fill up, as well as facilities that are in the process of filling up. In general, a stabilized property will have a higher absolute level of cash flow as well as a higher level of cash flow per unit. Consequently, buyers will pay more for these properties. As can be seen below, this has been the case in each and every year we have been tracking this particular statistic. What changes over time is the absolute level of stabilized and non-stabilized prices, as well as the spread between the stabilized and non-stabilized prices, which can be impacted by a variety of factors.

After widening out from 2005 to 2007, the spread between stabilized and non-stabilized average prices decreased from about \$66,000 per unit in 2007 to \$58,000 per unit in 2008, which is close to what the spread was in 2006. Last year we predicted that with the acquisition market slowing down, and fewer high-quality properties and portfolios coming onto the market, the likelihood was that stabilized prices would start to decline, but we were not sure what would happen to the non-stabilized ones. In addition, it should be noted that non-stabilized communities that are in very desirable markets or are in fill-up can still command prices significantly above the average stabilized property. The average price per unit for stabilized facilities in 2006, 2007 and 2008 was \$145,100, \$173,200 and \$143,800, respectively, and the average price per unit for non-stabilized facilities in 2006, 2007 and 2008 was \$87,500, \$107,100 and \$85,600, respectively.



TARGET: *Sunrise at Simi Hills*

LISTING: Private
LOCATION: Simi Valley, California
UNITS: 151
REVENUE:
NET INCOME: \$2,200,000 (projected EBITDA)

Carlyle Seniors Housing is selling Sunrise at Simi Hills, a 151-unit assisted living facility with 129 assisted living and 22 Alzheimer's units. Built in 2003, it was 74% occupied at the time of sale.

ANNOUNCEMENT DATE: March 21, 2008
PRICE: \$42,000,000
TERMS: Not disclosed

Carlyle purchased this property in May 2006 and quickly decided to sell it. Sunrise Senior Living has been the manager, but Vintage Senior Housing will take over operations and probably change the name. Eastdil Secured represented the seller in this transaction.

ACQUIRER: *Vintage Senior Housing, LLC*

LISTING: Private
CEO: Eric K. Davidson **PHONE:** 949-719-4080
130 Newport Center Dr Ste 220 **FAX:** 949-640-2799
Newport Beach, California 92660
WEB SITE: www.vintagesenior.com

Vintage Senior Housing owns and operates senior care facilities in several municipalities in California.

CLOSE DATE: March 21, 2008
PRICE PER UNIT: \$278,146
PRICE/REVENUE:
PRICE/INCOME: 19.09

TARGET: *Crown Pointe Retirement Community*

LISTING: Private
LOCATION: Corona, California
UNITS: 159
REVENUE: \$4,550,000
NET INCOME: \$1,975,000 (EBITDA)

The Provident Group is selling Crown Pointe Retirement Community, a 159-unit seniors housing facility with 115 assisted living, 35 independent living and 9 Alzheimer's units. Built in 1987, it was 86% occupied at the time of sale.

ANNOUNCEMENT DATE: March 29, 2008
PRICE: \$23,000,000
TERMS: Not disclosed

The community includes primarily one-bedroom units, with some alcove studios and two-bedroom units. Marcus & Millichap represented the seller in this transaction.

ACQUIRER: *Canyon Creek Development, LLC*

LISTING: Private
CEO: Jon Harder **PHONE:** 503-375-9016
3723 Fairview Industrial Dr., SE **FAX:** 503-375-0589
Salem, Oregon 97302
WEB SITE: www.sunwestmanagement.com

Canyon Creek develops and owns senior care facilities, throughout the country, which are operated by its affiliate, Sunwest Management.

CLOSE DATE: March 29, 2008
PRICE PER UNIT: \$144,654
PRICE/REVENUE: 5.05
PRICE/INCOME: 11.65

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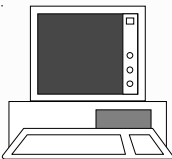
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LISTING: Nonprofit	LISTING: Private
LOCATION: Blue Hill, Maine	CEO: Charles E. Maulbetsch
UNITS: 47	PHONE: 734-997-7015
REVENUE: \$2,800,000 (annualized)	3891 Rancho Drive, Ste. 40
NET INCOME: 600,000 (EBITDA)	Ann Arbor, Michigan 48108
	FAX: 734-997-7031
	WEB SITE: www.chrisplacesenior.com

Eastern Maine Healthcare Systems is selling Parker Ridge, a 47-unit retirement facility that has 34 independent living and 13 assisted living units. Built in 1992, it was 100% occupied at the time of sale.

Christopher Place Senior Communities operates senior care facilities.

ANNOUNCEMENT DATE: August 29, 2008

PRICE: \$6,100,000

TERMS: Not disclosed

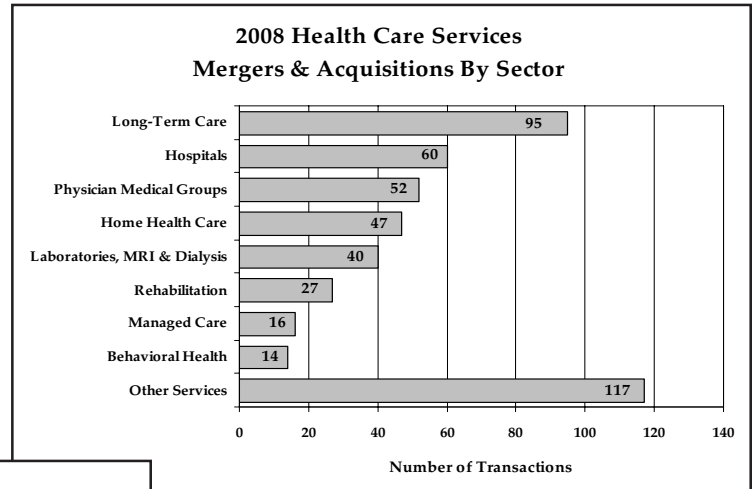
PRICE PER UNIT: \$129,787

PRICE/REVENUE: 2.18

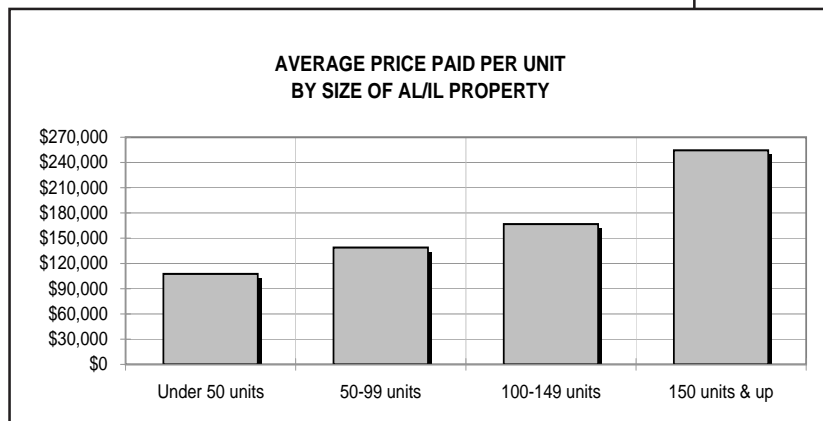
PRICE/INCOME: 10.17

The target community was built in 1992 and expanded in 2000. In addition to the 34 independent living and 13 assisted living units, there are 24 cottages on the property that are individually owned, but pay a ground lease to the owner as well as monthly dues for additional services. The facility underwent a major conversion from condos to rental in 2005 to 2006. The facility is currently 100% occupied with a waiting list of 55 people. Cain Brothers represented the seller in this transaction.

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